

Income Supplementing and the Poverty Trap: Speenhamland Revisited?

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**THE DYNAMICS OF
TIME AT WORK: AN
ANGLO-FRENCH
PERSPECTIVE**

EDITED BY

**PATRICK BARBER
AND
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Income Supplementing and the Poverty Trap: Speenhamland Revisited?

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The reduction of the working week is emerging as an alternative to more traditional strategies designed to tackle unemployment, but adjusting pay downwards in order to absorb the decrease in time at work is proving to be difficult. The most successful attempts to date have been recorded in industries where jobs would otherwise have been threatened.

Any reduction in wages for the low-paid whose union representation and industrial organisation is very often sparse, can jeopardise their ability to satisfy a “decent” standard of living. The recent abolition of minimum wage protection in Great Britain has meant that market forces are more than ever relied upon to dictate wage levels. By removing the remaining safety nets, employers are no longer required by law to pay minimum wages and the responsibility for paying “decent” wages has been shifted from them onto the social security system.

This chapter will look at the desirability and operation of such a system whereby social funding is called upon to top-up wages. Wage supplementation might encourage and maintain low wages and non-economic activity. Alternatively, it might increase access to the labour market for certain categories of workers.

In 1970, the Conservative government introduced Family Income Supplement, or rather re-introduced a system designed to top-up wages which fell beneath a set scale. At the same time, other European countries were adapting their minimum wage legislation to protect the most vulnerable elements of their workforces.

British political parties on both sides of Parliament have consistently turned a blind eye to the advantages of an across-the-board national minimum wage. Only recently has the Labour Party endorsed the idea of a national minimum wage, either to come into line with the European Social Charter or because it has realised that free market principles tend to compress low wages even further. Politicians have taken far too long in coming to terms with the fact that worker organisation just cannot protect everyone from poverty wages.

The national minimum wage would indeed be an important step forwards but it needs to be taken in the right direction. There is no magic wand available which will wipe out the years of negligence in one fell swoop. The implementation of a national minimum wage at a level which will have considerable disemployment effects will only serve to ruin its chances of becoming an indispensable cornerstone of British wage legislation. On the other hand, the present system which relies on social funds to bring wages up to a prescribed amount is a double-edged knife. Either it is supposed to encourage marginalised workers to accept employment, or it is just a trick to ensure that Britain can maintain a low wage economy.

It is difficult to consider that supplementing wages is solely a financial concept. Even if it is true that unemployment is the main concern of our political leaders, there is no denying that wage protection is part and parcel of the very ethics of the labour market. The aspect of time at work appears crucial in determining exactly how the interaction between social allowances and wages affects income, but a closer analysis shows that perhaps work at any price is the main motivation for maintaining devices which directly supplement pay.

On 6 May 1795, eighteen Justices of the Peace and other reputable local people met at the Pelican Inn in Speenhamland, Berkshire, to decide upon a uniform scale of allowances meant to aid wages. Although the Speenhamland example was not unique, it did stand out as being the first system designed to use the rates in order to compensate for low wages in a regular and organised manner. Other attempts had been made throughout the country to give parish relief not only to the able-bodied unemployed but also to the underpaid, but they had lacked the official character of the Speenhamland system. The latter was bent on rationalising the supplementation of wages but wanted to avoid breeding idleness:-

It will be necessary for the Poor to exert their utmost Industry before they can be entitled to any allowance from their respective Parishes; for at the same time that the Justices mean to pay every humane Attention to the real Wants of the Poor, they are equally determined to enforce the laws against their Idleness and Vices.

Whether the Justices of the Peace were trying to alleviate poverty wages for humanitarian reasons or for fear of Jacobinism especially imported from abroad is not clear but their warnings to the poor rang nevertheless loud and clear. Whereas the workhouses were designed to be so gruesome as to discourage the poor from seeking work there and to fend for themselves instead, the Speenhamland system quite blatantly targeted the deserving underpaid:-

At the same Time, the Magistrates commend to the Poor honest Industry and strict economy for these alone can entitle them to any Allowance from their respective Parishes and while the Magistrates wish to pay every humane Attention to the real Wants of the industrious, they determine to enforce the laws against Idleness and Intemperance.

The Speenhamland system was novel in that it embraced a sliding scale which allowed for fluctuations in the price of bread. This determined allowances given to the low paid in order to supplement their wages.

The discussions which led to the setting up of the Speenhamland system also embraced the implementation of minimum wages. These were supposed to cover the cost of living and were preferred by many to wage supplementing insofar as they preserved workers' dignity. Falling back onto charity in order to earn a fair wage was seen as being too humiliating. Minimum wages, on the other hand, would have enabled workers to become "less dependant on the State", an idea which a century and a half later was to become emblematic of the Thatcher ideology. Although the Speenhamland system was to last until the 1834 Poor Law, the idea of instituting minimum wages was too much for the laissez-faire thinking government of the time and fell by the wayside. The Speenhamland authorities had to content themselves with urging employers to index wages on the price of bread, thus avoiding recourse to the system of allowances.

The first return to directly subsidising wages was introduced in 1970 by the newly elected Conservative government. Chancellor Barber announced a plethora of measures which were implemented in his 1971 Budget, including important cuts in public expenditure. His proposals were attacked by Labour as being a shift of income away from the poor, a charge which was partly answered by the introduction of the Family Income Supplement (FIS) created by the 1971 Social Security Act (note 1).

FIS was a non-contributory, non-taxable benefit payable to families with at least one dependent child if the man or woman was in full-time remunerative work and if the family's normal gross weekly income fell below a prescribed amount. The amount of supplement was 50% of the difference between the family's gross income and the prescribed amount. Full-time work for FIS purposes meant 30 hours per week for a couple and 24 hours for a lone parent. Income in the form of child benefit, one parent benefit, attendance allowance, mobility allowance and the first £4 of a war disablement pension was statutorily disregarded (note 2).

Awards were normally for one year which meant that allowances were not affected by changes in family circumstances during that time. Most important of all, FIS was a passport benefit. Entitlement to FIS meant automatic entitlement to a whole range of other benefits including free prescriptions, free dental treatment and vouchers for glasses, free milk and vitamins for expectant mothers and children under five, free school meals and refund of fares for members of the family attending hospital for treatment. Only about half of those eligible for FIS claimed whereas a take-up figure of 85% had been forecast. The low-paid showed themselves to be generally resistant to selective assistance. In order to optimise take-up, FIS administration was designed to be as simple as possible relying on a postal scheme with a central office at Blackpool. Take-up statistics, as stated above, were not as expected, but poor results were put down to reluctance to claim rather than administrative difficulties. In most cases of disallowance, apart from the traditional problems linked to the provision of correct information, excess income stands out as being the main culprit. Time at work was initially problematic but the number of disallowances dropped off as claimants became familiar with the system. Casual labour was another source of friction in so far as the minimum number of hours were worked in many cases but not over a sufficiently long period of time for workers to qualify. This was exacerbated with the one year qualifying period and was especially detrimental for seasonal workers.

The next major change in supplementing wages came in 1988 when FIS was transformed into Family Credit (FC). FC was broadly organised along the same lines as FIS but the number of hours enabling a claimant to be entitled was reduced to twenty four and in 1992 to sixteen. This figure is valid for each person in the case of a couple claiming FC. Rather than requiring that low-wage earners explicitly claim FC, it is automatically calculated using information transferred by employers from pay slips to FC forms. The idea behind this is to ensure maximum take-up which had not been the case with FIS. The other major difference is that FC takes net incomes into account whereas for FIS it was gross income. FC awards are made for a period of twenty six weeks during which entitlement is not affected by any modification of family circumstances. Earnings are assessed over a five week period to calculate FC entitlement which means that a family can receive FC if for some period in the last six months the conditions were satisfied for the qualifying five week period. Calculating FC accurately when all these parameters have been taken into account is an extremely complicated task. Unfortunately, no reliable information is available for disallowances.

The same sorts of income as for FIS are offset against total income but also include Housing Benefit and Council Tax Benefit. From 1992, the first £15 of maintenance was disregarded. Problems in claiming due to excess income became even more acute when FC was introduced because savings and capital were assessed by the social services. Currently (1994 statistics) FC is not payable to people with savings or capital above £8,000. Savings between £3,000 and £8,000 are taken into account by assuming a weekly income of £1 for each £250 of savings over the £3,000 level. Just like FIS, FC is a passport benefit and currently carries

automatic entitlement to free prescriptions, dental treatment and eye tests, vouchers for the purchase of glasses and other articles, and covers travel costs to and from hospital for NHS treatment.

It was with FIS that the poverty trap began to emerge as a threat to the incomes of the worst off. The subsidisation of low wages compounded the tendency of means tested relief to imprison the poor at or just below the subsistence level. This meant that every increase in earnings was penalised by a loss in benefits and the low-paid were being discouraged from improving their condition by their own efforts. The effects were particularly detrimental for single parents who saw very little point in remaining in their low-paid jobs once their partner's wage had disappeared. Therefore, as single parenthood rose, so did the number of transfers from dependency on earnings supplementing to Supplementary Benefit and later Income Support.

Figures for 1994 show that 521,300 families were receiving Family Credit in Great Britain at an average rate of £46 per week with 56% being couples and 44% single parent families. It will come as no surprise that 96% of single-parent families were headed by a woman. Ten years previously 200,000 families were receiving Family Income Supplement, 60% of which were couples and 38% single parent families (95% headed by a woman. Note 3.).

As far as the occupation of FIS and FC recipients is concerned, the most obvious change over the last decade is in the service industries. Information available for 1994 shows that 40% of FIS recipients worked in the service industries against 20% in 1987.

Elsewhere, no significant changes are to be found although occupations are listed differently thus making comparisons difficult. The 1987 statistics refer to "General unskilled workers" whereas in 1994 each industry is listed.

The poverty trap is best illustrated with an example of how high marginal tax rates can affect income. Taking 1989-1990 figures, a man with two children earning £7,500 per annum with savings of less than £3000 (and are therefore not taken into account) paying 25% income tax, 9% National Insurance Contributions and is eligible for Family Credit. He is therefore paying tax and receiving a means tested benefit. If his income increases by £1 at the end of the 26-week period his FC reassessment will mean that 70% of the increase in net income will be clawed back. Twenty-five per cent of the £1 is lost in tax and 9% in National Insurance Contributions leaving 66p which is clawed back at a rate of 70% ie. 46.2p. The man thus retains 19.8p which is just under a fifth of the extra income.

Quite apart from the danger of work disincentive arising from high marginal tax rates is the loss of passport benefits which occurs when FC is lost through increased income. The net outcome for the beneficiary can be a loss in income especially if the wage earner is prone to illness. The most unscrupulous employers are sorely tempted to reach a collusive agreement with employees whose wages are vulnerable to the poverty trap and although no official information is available to corroborate this, cash settlements are bound to be common in the less organised sectors of industry.

The following figures, although a little out of date, illustrate the extent of the poverty trap:

Official estimates of the numbers of working heads of tax units facing marginal tax rates of 70% or more, 1988/89.

Marginal tax rates %	Families with children	Others	Total
70-79%	150,000	20,000	170,000
80-89%	285,000	15,000	300,000
90-99%	45,000	0	45,000
100+	0	0	0
Total	480,000	35,000	515,000

An award of FC is itself taken into account in assessing entitlement to both Housing Benefit (HB) and Community Charge Benefit (CCB). There is no other means tested benefit which itself becomes a resource in the calculation of other means tested benefits. Because excess income reduces HB by 65% and CCB by 15%, an award of FC to recipients of both those benefits is effectively taxed at 80%, until eligibility is extinguished through the earnings taper. Awards of FC to owner occupiers are only subject to marginal "tax rates" of 15%, as under the present system they are eligible only for CCB. In theory, it might be expected that owner occupiers would be more likely to claim FC than those in rented accommodation where the marginal tax rate could be 80%. The reality is quite different: owner occupiers tend to belong to a higher wage bracket than people living in rented accommodation and are generally not eligible for FC.

Just how effective is wage supplementing in encouraging people to take up low-paid work? The main snag appears to be the lack of clarity in what exactly a claimant is going to clear. Interaction between the variety of available benefits remains a mystery and generally Income Support (IS) claimants are reticent to take up wage supplemented employment for fear of losing out on other allowances. It is the passport factor which is a major drawback with housing and rent rebates often quoted as being the benefits that claimants are afraid of losing out on the most. Added to this fear are the expenses incurred for travelling and child care facilities. The minimum gap between Income Support and Family Credit before "taxation" stands at 140% of the former and appears to be insufficient especially since up to 85% of income above IS level can be clawed back through reduced Housing Benefit and Community Charge Rebate both of which are means tested benefits. Shoe-string budgets allow very little room for manoeuvre and frequent fluctuations in income provide an unreliable basis for rational wage supplementing.

Insofar as the problem of high marginal tax rates for low income families is largely due to the existence of income tested benefits, one solution would be to float people off them by increases in non-means tested benefits. This would considerably reduce the negative effects of clawback but would not enable the social services to specifically target poorer families more efficiently.

Once the initial snags have been ironed out, some FC claimants appreciate the complementarity between earnings and wage supplementing in the form of FC as this quote shows:-.

“Without Family Credit, I would not be able to work as my wage would not have been enough to survive on and I would have had to claim social security and stay confined at home feeling totally dependent on the state.”

The crux of the dilemma is that Family Credit is seen by many as a route out of Income Support, especially since the reduction on qualifying hours was introduced. Numerous claimants express the advantages of FC not only as a passport benefit entitling them to other allowances but also as a passport to the labour market. This seems to be particularly valid for lone parents who benefit from the recent legislation concerning maintenance disregard (first £15). A lone parent in receipt of Family Credit but no other income-related benefit could afford to take a job with take-home pay of up to £50 less than if there were no disregard.

Nevertheless, however laudable attempts to encourage even the most vulnerable workers to accept employment may appear, they do disguise the potential for FC to foster a low-wage economy. Low-paid workers are seen to be able to afford to work. This is particularly true in the light of the 1988 changes brought about by the introduction of FC as employers were made perfectly aware of their employees' entitlement to wage supplements. Despite the fact that no official information is available, collusion between employers and their employees is an even more distinct possibility with FC than for FIS.

It is difficult to establish the influence of wage supplementing on workers' attitudes to paid activity. The poverty trap does not appear to be uppermost in people's minds when seeking work but employment at any price is an ambiguous and perhaps dangerous concept. Time at work could be considered as being valuable if it is a source of self-fulfilment, independence and the relief of isolation. Alternatively supplementing wages may be viewed as a self-destructive concept because it relates so blatantly to the harsh realities of a low-wage economy. People's reluctance to claim is understandable in that wage supplementing carries with it the idea that earnings are insufficient and do not live up to the age-old saying "a fair day's work for a fair day's pay".

One way of making inroads into the perpetual 'work ethics' dilemma bred by wage supplementing would be the introduction of a national minimum wage. Time at work would instantly become a more recognisable and identifiable feature of employment especially in view of the fact that FC claimants tend to have earnings that cluster around the bottom of the wage hierarchy. If the minimum wage were set at an appropriate level it would not be too disruptive. This last point highlights one major criticism levelled at an across the board national minimum wage in that it might exert slight downward pressure on wages. Notwithstanding this inconvenience, the national minimum wage could act as a clear benchmark by which a plethora of allowances and benefits could be calculated; not least, of course, wage supplementing. (note 4)

Added to this is the fact that FC statistics clearly corroborate evidence brought to light over the years by the Wages Council system which in Great Britain was used for eighty-four years to establish minimum wages for anything up to sixty sectors of British industry. In their later years, Wages Councils dealt essentially with workers concentrated in the service industries where wages always have been notoriously low. The buck appears to have been passed directly on to FC. The service industries still attract a great many part-time workers, most of whom are women including a great many single parents. Figures, as stated beforehand, highlight how important FC entitlement is for this latter population. A national minimum wage would directly affect these employees because prevailing market forces and lack of solid worker organisation amongst other factors, tend to confine them into the minimum wage bracket.

Preaching clarity and simplicity embraced by an across the board national minimum wage, somewhat begs the question of whether wage supplementing is a healthy and desirable means of redistributing wealth. In many respects, Family Credit is a more realistic wage supplementing device because it is paid to 'working people' provided they qualify in terms of a minimum number of hours. Family Income Supplement on the other hand targeted 'full-time workers'. Family Credit tends to be more faithful to the 1980's work credo whereby accepting any form or sort of employment is seen as being an essential ingredient in a responsible individual's participation in society.

This perspective contains a major flaw. The minimum hours qualifying requirement contained in FIS assumed a different dependency of claimants on time at work in that they were embroiled to a greater extent in the 'dynamics' of time at work. FC encourages work take-up almost for the sake of it, thus minimising this concept. The notion of 'pin money' which is only too often associated with part-time women workers is just one proof of this. Drawing a rational line between the two is extremely tricky and distinguishing work incentives from purely financial motivations is possibly a figment of the imagination.

An overhaul of wage supplementing needs a lot more than the fictitious magic wand capacities of a national minimum wage, which despite providing a clear and stable benchmark whose functions would not be confined simply to minimum wages, does not necessarily carry with it the required 'dynamics' of work itself. These need to be fostered by more positive interaction between the available benefits so as not to end up being sacrificed on the altar of wage supplementing. The notion of wage supplementing is fraught not so much with the harsh reality of low wages as low income which cannot contribute to a healthy work environment. A clearer distinction between the two is needed in order to reduce their harmful interaction and interdependency.

To suggest that high marginal tax rates should not be allowed to act as a work disincentive is purely wishful thinking and however hard the authorities strive to perfect the ideal system combining benefits and earnings, someone is bound to lose out. Even so, within this framework, the whole concept of wage supplementing is ugly. Linking National Insurance Contributions, lower tax and marginal tax rates, whilst extinguishing the loss of passport benefits is pure mathematics and depends essentially on choice, political or otherwise. Fostering the dynamics of time at work is a far more intricate and challenging task which will always be at odds with wage supplementing. Income supplementing seems a far more attractive alternative because it encroaches in a different way on time at work. While guaranteeing a decent income to the worst off, it also leaves room for people to indulge in employment which would otherwise be difficult.

With high unemployment and the steady erosion of traditional work practices, time at work is becoming a precious commodity and should be treated as such. The Speenhamland system was designed to encourage people not to be unemployed. Wage supplementing encourages people to accept employment at practically any cost and helps to preserve a low-wage economy. Rethinking this concept must, in my opinion, start by eliminating not so much poverty traps, but the idea that wages in the first place need to be supplemented or as the even more irritating euphemism would have it, topped up.

Notes

1. In 1975, child tax allowances were abolished and payments were merged with family allowances to form Child Benefit payable as from 1977 to all children.
2. The subsistence level is defined by the rates paid by National Assistance which was replaced in 1966 by Supplementary Benefit. This in turn was replaced in 1989 by Income Support.
3. Unless otherwise stated, all statistical information comes from HMSO, Family expenditure Survey 1988-1989 & Government Statistical Service, Social Security Statistics 1994.
4. May I add that the European Council, the TUC and the various pressure groups targets seem to me to be far too ambitious because of the huge increase in wages that they would entail. I firmly believe that the minimum wage must be accepted in principle and thus be set at a low rate, before it can become a viable economic and social weapon designed to alleviate the plight of the low-paid. Put it on the statute books and worry about the rate afterwards!

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